

# **Railroad Unemployment Insurance System**

**Annual Report Required by Section 7105  
of the Technical and Miscellaneous  
Revenue Act of 1988**



**U.S. Railroad Retirement Board  
Bureau of the Actuary and Research  
June 2021**

## ANNUAL REPORT REQUIRED BY THE TECHNICAL AND MISCELLANEOUS REVENUE ACT OF 1988

### I. Introduction

Section 7105 of the Technical and Miscellaneous Revenue Act of 1988 (Public Law 100-647) requires the Railroad Retirement Board to submit an annual report to the Congress on the financial status of the railroad unemployment insurance system. The report must contain recommendations for financing changes that might be advisable, specifically with regard to rates of employer contributions. This report meets the requirements of Section 7105 for 2021.

### II. Recent Developments

The maximum daily benefit of \$80 for the benefit year beginning July 1, 2020 will increase to \$82 for the benefit year beginning July 1, 2021. Beginning July 1, 2022, the maximum daily benefit rate will increase to \$85. The monthly tax base was \$1,605 in 2019, \$1,655 in 2020, and increased to \$1,710 in 2021, based on changes in the railroad retirement tier I creditable base.

There is currently a 2.5 percent surcharge in calendar year 2021. This year's report predicts a 3.5 percent surcharge in calendar year 2022 will be followed by either a 1.5 percent surcharge or a 2.5 percent surcharge for calendar year 2023. Under all assumptions, no surcharge is likely for calendar year 2024.

Due to a short-term cash flow problem, \$120.0 million was borrowed from the Railroad Retirement Account during fiscal years 2020 and 2021. These loans and any additional loans predicted under the pessimistic assumption are expected to be fully repaid by the end of fiscal year 2022.

Benefits payable under the Railroad Unemployment Insurance Act are subject to sequestration under Public Law 99-177, the Balanced Budget and Emergency Deficit Control Act of 1985, as amended by Public Law 112-25, the Budget Control Act of 2011, which was further amended by Public Law 112-40, the American Taxpayer Relief Act of 2012; Public Law 113-67, the Bipartisan Budget Act of 2013, Public Law 113-82, the Military Retired Pay Restoration Act of 2014; Public Law 114-74, the Bipartisan Budget Act of 2015; Public Law 115-123, the Bipartisan Budget Act of 2018; Public Law 116-37, the Bipartisan Budget Act of 2019; Public Law 116-136, and the Coronavirus Aid, Relief, and Economic Security Act of 2020 extended sequestration until September 30, 2030. The Continued Assistance to Rail Workers Act of 2020 suspended sequestration beginning January 3, 2021 until 30 days after a Presidential declaration of the end to the COVID-19 national emergency. For purposes of this report, benefit estimates for fiscal years 2022 through 2030 amounts are after sequestration.

### III. Economic and Employment Assumptions

The economic and employment assumptions used in this report correspond to those used in the report required by Section 502 of the Railroad Retirement Solvency Act of 1983. Unemployment levels are the single most significant factor affecting the financial status of the railroad unemployment insurance system. Rapidly declining employment coupled with high unemployment and/or sickness levels, as occurred in the late 2000s and as we have seen due to the COVID-19 pandemic, can put the system into debt. Conversely, cash balances can accumulate if employment declines are moderate and unemployment levels remain low. The experience-rating system is designed to tie individual employer contribution rates to their level of benefit claims, thereby adjusting the overall account balance to an appropriate level.

The three railroad employment assumptions used, denoted A, B, and C, are shown in Table 1 at the end of the report. The projected tier I creditable limits, which determine both the railroad unemployment monthly wage base and the maximum daily benefit rate, are from the Office of Management and Budget February 2021 economic assumptions. Table 2 shows the tier I creditable limit, unemployment monthly earnings base, and daily benefit rate assumptions.

### IV. Results

Projections were made for the various components of income and outgo under each set of assumptions for the 11 fiscal years 2021-2031. The results are summarized in Table 3. Average employer contribution rates under the experience-rated contribution system are weighted averages based on the relative size of each railroad's payroll.

Table 3 consists of three tables A, B, and C, one for each assumption projection: (A) optimistic, (B) intermediate, (C) pessimistic. The tables show (1) contributions, excluding the portion allocated to the Railroad Unemployment Insurance Administration Fund (Fund), (2) net benefit payments, (3) other income and outgo, (4) the cash balance in the Railroad Unemployment Insurance Account (Account) at the end of each fiscal year, (5) the loan balance, if any, including accrued interest, (6) the Account balance at the end of each fiscal year, less loans due and (7) the average employer contribution rate for each calendar year.

The experience-rating formula is designed to keep the accrual balance of the Account, as of June 30, between \$100 million and \$250 million, indexed for changes in the system compensation base. If the balance exceeds an indexed \$250 million, contributions are reduced by a pooled credit. If the balance falls below an indexed \$100 million but is at least an indexed \$50 million, contributions are increased by a surcharge of 1.5 percent. If

the Account balance is less than an indexed \$50 million, but greater than zero, the surcharge will be 2.5 percent. A maximum surcharge of 3.5 percent applies if the Account balance is less than zero.

The June 30, 2019 balance<sup>1</sup> of \$157.5 million was above the indexed \$100 million surcharge threshold of \$152.3 million. As a result, no surcharge was in effect for calendar year 2020. By June 30, 2020, the balance had fallen to \$53.7 million, which was below the indexed \$50 million surcharge threshold of \$73.7 million. Consequently, a 2.5 percent surcharge is in effect for calendar year 2021.

Under each assumption, due to high unemployment and sickness levels and the decline in employment as a result of the COVID-19 pandemic, the Account balance is expected to be below zero in June 2021, resulting in a 3.5 percent surcharge, and increasing the maximum rate to 12.5 percent for calendar year 2022. For calendar year 2023, either a 1.5 percent surcharge is predicted under the optimistic and intermediate assumptions or a 2.5 percent surcharge under the pessimistic assumption. No surcharge is likely for 2024 under all assumptions. Surcharges of 1.5 percent will occur intermittently thereafter. The highest average contribution rate in the 11-year projection period is under the pessimistic assumption, where it rises to 9.24 percent for calendar year 2022. This is below the 12.5 percent maximum rate allowable while a 3.5 percent surcharge is in effect.

There were short-term cash flow problems that began in September 2020 that required loans from the Railroad Retirement Account. Under the pessimistic assumption, this short-term cash flow problem continues into the beginning of fiscal year 2022. Under all assumptions, the full repayment of the loans occurs by the end of fiscal year 2022.

Administrative expenses are assumed to be below current levels in every fiscal year. The 0.65 percent of taxable payroll allocated to the Fund is sufficient to finance administrative expenses during the projection period. When the accrual balance in the Administration Fund exceeds \$6 million at the end of a fiscal year, excess funds are transferred to the Account early in the next fiscal year. Under all employment assumptions, the accrual balance in the Administration Fund exceeds \$6 million at the end of each year in the 11-year projection period.

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<sup>1</sup> The balance referred to here and in the following paragraph is the accrual balance of the Account as of June 30, on which calculations of pooled credits and surcharges are based. Cash balances shown on Tables 3A-C are not used in these calculations. June 30 accrual balances are shown in Table 4.

V. Recommendation

As stated in the introduction, the Congress directed the Railroad Retirement Board to make recommendations for financing changes that might be advisable, specifically with regard to rates of employer contributions.

No financing changes are recommended at this time. Projections under three different assumptions indicate that experience-based contribution rates will respond to fluctuating employment and unemployment levels and with short-term borrowing, and will maintain fund solvency.

**Table 1: Employment Assumptions Used in 2021 Report**

Calendar Year	Average Employment (thousands)		
	A	B	C
2020	197	197	197
2021	200	198	195
2022	202	198	193
2023	205	198	191
2024	204	196	186
2025	204	194	182
2026	204	192	178
2027	203	189	173
2028	203	187	169
2029	203	185	165
2030	202	183	161
2031	202	181	157

Assumptions A and B reflect the stability of employment in passenger service (Amtrak and commuter service) as distinguished from freight service. Assumption A has the most optimistic employment of the three assumptions. Assumption B is intended to provide a "moderate" assumption. Assumption C, the most pessimistic, has declines in both passenger and freight employment.

Passenger employment is assumed to remain level at 46,000 under assumptions A and B, and to decline by 500 each year under assumption C.

The COVID-19 pandemic dramatically reduced non-passenger employment beginning in the second quarter of 2020. Beginning in 2021, non-passenger employment is expected to return to pre-pandemic levels under assumption A, remain steady under assumption B and see moderate declines under assumption C through 2023. Non-passenger employment is assumed to decline at a constant annual rate of 0.2 percent, 1.5 percent, and 2.8 percent under assumptions A, B, and C, respectively, beginning in 2024.

**Table 2: Annual Tier I Creditable Limit, Monthly RUI  
Taxable Limit, and Maximum Daily Benefit Rate**

Calendar Year	Annual Tier I Limit	Monthly RUI Limit	Maximum Daily Benefit Rate [1]
2020	\$137,700	\$1,655	\$80
2021	142,800	1,710	82
2022	145,500	1,740	85
2023	153,000	1,820	87
2024	159,000	1,885	91
2025	164,700	1,945	94
2026	171,300	2,015	97
2027	176,400	2,065	100
2028	182,400	2,130	103
2029	189,000	2,200	106
2030	195,600	2,270	110
2031	203,100	2,350	113

[1] Effective for registration periods beginning after June 30 in the calendar year.

Table 3A. Progress of the Railroad Unemployment Insurance Account Under Assumption A  
(Dollar Amounts in Millions)

Fiscal Year	Account Contributions [1]	Net Benefit Payments [2]	Other Income and Outgo [3]	Account Cash Balance Year End	Loan Balance Year End [4]	Account Cash Balance Less Loans Due Year End	Calendar Year	Average Employer Contribution Rate (Percent)
2021	\$90.8	\$188.3	\$95.4	\$24.5	\$109.7	(\$85.2)	2021	5.02
2022	270.7	108.7	(102.2)	84.4	0.0	84.4	2022	9.22
2023	299.5	101.2	14.8	297.5	0.0	297.5	2023	5.95
2024	136.1	97.2	18.7	355.2	0.0	355.2	2024	1.41
2025	23.1	100.7	19.9	297.5	0.0	297.5	2025	0.88
2026	15.1	103.9	20.0	228.7	0.0	228.7	2026	1.04
2027	28.8	106.9	20.0	170.7	0.0	170.7	2027	1.41
2028	59.9	110.1	20.2	140.7	0.0	140.7	2028	2.22
2029	105.3	113.2	21.1	154.0	0.0	154.0	2029	3.06
2030	123.6	116.5	23.1	184.2	0.0	184.2	2030	2.79
2031	99.5	127.8	24.7	180.6	0.0	180.6	2031	2.07

[1] Excludes 0.65 percent of taxable payroll allocated to the Administration Fund.

[2] In accordance with the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, the fiscal year 2021 amount reflects a reduction of 5.7% under sequestration for days of unemployment and sickness after September 30, 2020 and before January 2, 2021. Beginning January 3, 2021, the Continued Assistance to Rail Workers Act of 2020 temporarily suspended sequestration until 30 days after a Presidential declaration of an end to the national emergency concerning the COVID-19 pandemic. For projection purposes, sequestration resumes in fiscal year 2022 and amounts thru fiscal year 2030 reflect a reduction of 5.7%.

[3] Income includes interest on investments, transfers from the Administration Fund of amounts in excess of \$6 million at the end of the previous fiscal year, and loans from the Railroad Retirement Account. Outgo includes funding for the Office of Inspector General and repayment of loans, including interest.

[4] Includes accrued interest.

NOTE: Detail may not add to totals due to rounding.



Table 3B. Progress of the Railroad Unemployment Insurance Account Under Assumption B  
(Dollar Amounts in Millions)

Fiscal Year	Account Contributions [1]	Net Benefit Payments [2]	Other Income and Outgo [3]	Account Cash Balance Year End	Loan Balance Year End [4]	Account Cash Balance Less Loans Due Year End	Calendar Year	Average Employer Contribution Rate (Percent)
2021	\$89.9	\$188.3	\$96.5	\$24.7	\$110.8	(\$86.1)	2021	5.02
2022	266.3	115.8	(103.6)	71.7	0.0	71.7	2022	9.23
2023	296.7	115.0	14.1	267.5	0.0	267.5	2023	6.14
2024	142.0	113.5	17.3	313.4	0.0	313.4	2024	1.68
2025	32.8	112.0	18.1	252.3	0.0	252.3	2025	1.09
2026	26.7	114.3	17.6	182.3	0.0	182.3	2026	1.37
2027	48.0	116.6	17.4	131.2	0.0	131.2	2027	1.98
2028	89.5	118.8	17.4	119.3	0.0	119.3	2028	3.08
2029	128.7	120.9	18.3	145.5	0.0	145.5	2029	3.53
2030	125.9	123.3	19.9	168.0	0.0	168.0	2030	2.87
2031	97.6	133.8	20.9	152.7	0.0	152.7	2031	2.30

[1] Excludes 0.65 percent of taxable payroll allocated to the Administration Fund.

[2] In accordance with the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, the fiscal year 2021 amount reflects a reduction of 5.7% under sequestration for days of unemployment and sickness after September 30, 2020 and before January 2, 2021. Beginning January 3, 2021, the Continued Assistance to Rail Workers Act of 2020 temporarily suspended sequestration until 30 days after a Presidential declaration of an end to the national emergency concerning the COVID-19 pandemic. For projection purposes, sequestration resumes in fiscal year 2022 and amounts thru fiscal year 2030 reflect a reduction of 5.7%.

[3] Income includes interest on investments, transfers from the Administration Fund of amounts in excess of \$6 million at the end of the previous fiscal year, and loans from the Railroad Retirement Account. Outgo includes funding for the Office of Inspector General and repayment of loans, including interest.

[4] Includes accrued interest.

NOTE: Detail may not add to totals due to rounding.

Table 3C. Progress of the Railroad Unemployment Insurance Account Under Assumption C  
(Dollar Amounts in Millions)

Fiscal Year	Account Contributions [1]	Net Benefit Payments [2]	Other Income and Outgo [3]	Account Cash Balance Year End	Loan Balance Year End [4]	Account Cash Balance Less Loans Due Year End	Calendar Year	Average Employer Contribution Rate (Percent)
2021	\$88.8	\$188.3	\$97.7	\$24.8	\$112.0	(\$87.2)	2021	5.02
2022	260.9	146.7	(105.7)	33.4	0.0	33.4	2022	9.24
2023	311.5	136.2	12.7	221.4	0.0	221.4	2023	7.27
2024	176.2	136.9	15.7	276.5	0.0	276.5	2024	2.45
2025	56.5	139.5	15.9	209.4	0.0	209.4	2025	1.52
2026	46.6	140.7	15.1	130.4	0.0	130.4	2026	1.96
2027	87.7	141.5	14.3	91.0	0.0	91.0	2027	3.42
2028	144.8	142.4	14.3	107.7	0.0	107.7	2028	4.59
2029	162.0	143.2	15.4	142.0	0.0	142.0	2029	4.17
2030	129.7	144.0	16.2	143.9	0.0	143.9	2030	3.06
2031	104.4	154.4	16.1	110.0	0.0	110.0	2031	2.97

[1] Excludes 0.65 percent of taxable payroll allocated to the Administration Fund.

[2] In accordance with the Balanced Budget and Emergency Deficit Control Act of 1985, as amended, the fiscal year 2021 amount reflects a reduction of 5.7% under sequestration for days of unemployment and sickness after September 30, 2020 and before January 2, 2021. Beginning January 3, 2021, the Continued Assistance to Rail Workers Act of 2020 temporarily suspended sequestration until 30 days after a Presidential declaration of an end to the national emergency concerning the COVID-19 pandemic. For projection purposes, sequestration resumes in fiscal year 2022 and amounts thru fiscal year 2030 reflect a reduction of 5.7%.

[3] Income includes interest on investments, transfers from the Administration Fund of amounts in excess of \$6 million at the end of the previous fiscal year, and loans from the Railroad Retirement Account. Outgo includes funding for the Office of Inspector General and repayment of loans, including interest.

[4] Includes accrued interest.

NOTE: Detail may not add to totals due to rounding.

**Table 4. June 30 Accrual Balance of the Railroad Unemployment Insurance Account  
(Dollar Amounts in Millions)**

Year	Assumption A			Assumption B			Assumption C		
	Account Balance	1.5 Percent Surcharge Threshold	2.5 Percent Surcharge Threshold	Account Balance	1.5 Percent Surcharge Threshold	2.5 Percent Surcharge Threshold	Account Balance	1.5 Percent Surcharge Threshold	2.5 Percent Surcharge Threshold
2021	(\$46.9)	\$155.7	\$77.8	(\$47.9)	\$155.3	\$77.6	(\$49.2)	\$154.8	\$77.4
2022	113.5	147.9	74.0	101.6	146.0	73.0	67.7	143.7	71.8
2023	325.6	155.1	77.6	297.0	151.6	75.8	253.6	147.3	73.7
2024	383.6	163.2	81.6	343.5	157.9	79.0	309.2	151.5	75.8
2025	326.9	168.6	84.3	282.6	161.5	80.8	242.5	153.0	76.5
2026	259.6	173.9	86.9	213.7	164.9	82.5	164.3	154.2	77.1
2027	202.8	179.4	89.7	163.3	168.5	84.2	125.0	155.5	77.8
2028	174.0	183.9	91.9	152.1	170.9	85.5	141.7	155.8	77.9
2029	188.4	189.4	94.7	179.0	174.4	87.2	175.8	156.9	78.4
2030	219.7	195.3	97.6	202.3	178.0	89.0	178.0	158.1	79.1
2031	218.5	201.4	100.7	188.5	181.8	90.9	145.7	159.4	79.7

The June 30, 2020 accrual balance was \$53,715,608.16. The indexed 1.5 percent surcharge threshold was \$147,329,772.00 and the indexed 2.5 percent surcharge threshold was \$73,664,886.00.

The experience rating system provides for a surcharge in the employer contribution rate when the Railroad Unemployment Insurance Account balance falls below certain thresholds. The 1.5 percent surcharge threshold is the greater of \$100 million or the amount that bears the same ratio to \$100 million as the system compensation base as of that June 30 bears to the system compensation base as of June 30, 1991. The 2.5 percent surcharge threshold is indexed from a \$50 million base. The maximum surcharge of 3.5 percent applies if the Railroad Unemployment Insurance Account balance is less than zero.